

**The Internal Revenue Service Responded to
the Needs of Surviving Individual Taxpayers
Following the September 11, 2001,
Terrorist Attacks**

August 2002

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 8, 2002

MEMORANDUM FOR DIRECTOR, TAX ADMINISTRATION COORDINATION

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Internal Revenue Service Responded to the Needs of Surviving Individual Taxpayers Following the September 11, 2001, Terrorist Attacks (Audit # 200210011)

This report presents the results of our review of the Internal Revenue Service's (IRS) efforts to provide tax relief to individual taxpayers (not business taxpayers) following the September 11, 2001, terrorist attacks. The overall objectives of this review were to determine the effectiveness of actions taken to suspend activity on accounts of individual taxpayers located in the disaster and emergency areas. We also determined if the IRS took appropriate actions to advise taxpayers entitled to disaster relief, but not located in the disaster areas, of the tax relief available and how to self-identify to obtain it. Other Treasury Inspector General for Tax Administration audits focused on the IRS' efforts to prepare for the processing of income tax returns for those individuals killed as a result of terrorist attacks in the United States¹ and business taxpayers needing disaster relief after September 11, 2001.²

In summary, IRS management took immediate action after the events of September 11, 2001, to develop and implement a methodology to provide tax relief to those surviving individual taxpayers whose lives had been disrupted by the terrorist attacks. Effective September 11, 2001, the IRS provided all taxpayers nationwide with filing and payment relief through September 24, 2001. Computer programming suppressed assessments of penalties and interest as long as the tax returns and payments that were due during this time period were filed or paid by September 24, 2001. This relief allowed individual and business taxpayers additional

¹ Efforts to Implement the Victims of Terrorism Tax Relief Act of 2001 (Audit Number 200210009).

² The Internal Revenue Service Worked Quickly to Assist Business Taxpayers Needing Disaster Relief After September 11, 2001 (Audit Number 200230015).

time to meet their immediate federal tax obligations that may have been delayed due to disruptions caused by the terrorist attacks. A systemic computer account freeze (and its corresponding –O freeze indicator) was input on September 25, 2001, to the accounts of taxpayers who lived in the Federal Disaster and Emergency Areas of New York, New Jersey, and Virginia, and 11 other counties designated by the IRS in Connecticut and New York. The computer account freeze was subsequently reset over the next several months to limit the relief to the taxpayers in specific geographical locations. The freeze was limited because it was determined that taxpayers in these areas were the most likely to have had their homes and/or businesses destroyed in the attacks and would be the most likely to qualify for tax relief.

Based on our three statistically valid samples of individual taxpayer accounts affected by the September 11, 2001, attacks (a total of 1,356 taxpayer accounts), we determined the IRS effectively ensured that affected individual taxpayer accounts received the tax relief intended by IRS management and the Department of the Treasury. Although the taxpayer accounts were frozen as intended by IRS management, we determined that the account freeze indicator was not reset on the accounts of 71 taxpayers in one of our samples between October 31, 2001, and February 12, 2002. This occurred due to a computer programming error when the account freeze was extended beyond the expiration date of October 30, 2001. IRS management stated that extreme time constraints involved in programming this tax relief did not allow them to follow their normal program testing procedures prior to input to IRS computers. We estimate this would affect approximately 79,600 individual taxpayers with zip codes in the five boroughs of New York City and in Arlington County, Virginia. The freeze indicator is important because it alerts IRS employees of a taxpayer's disaster status. However, despite the absence of the freeze indicator on these accounts, we did not identify any prohibited compliance activity on the accounts in our sample.

In addition, IRS management provided information to advise other affected taxpayers, who reside outside the areas identified for the freeze, to contact the IRS to obtain tax relief. Information was made available through news releases, notices included in correspondence to taxpayers, and several publications, and was also posted on the IRS Internet website. Generally, the notices provided to taxpayers included only limited information, primarily to advise the taxpayers that they may qualify for the tax relief and to call the IRS if they were affected by the terrorist attacks. A special toll-free telephone number was established for this purpose. If taxpayers identified themselves as affected by the September 11, 2001, terrorist attacks, IRS procedures instructed employees to manually set the freeze on the taxpayers' accounts.

In order to identify programming errors such as the one discussed above, we recommended that Modernization and Information Technology and Security Services management develop procedures to ensure computer programming that cannot be reviewed prior to being input to computer systems is reviewed immediately afterward, as required.

Management's Response: Modernization and Information Technology and Security Services management has adopted a policy that ensures that computer programming is

reviewed immediately after input to computer systems if, due to time constraints, it cannot be reviewed prior to input, as required.

Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

Attachment

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The Internal Revenue Service Responded to the Needs of Surviving Individual Taxpayers Following the September 11, 2001, Terrorist Attacks

Background

The Internal Revenue Code (I.R.C.) authorizes the Internal Revenue Service (IRS) to grant extensions to file tax returns and pay taxes, to waive penalties, and to abate interest in certain circumstances. Although not legally required to, the IRS commonly uses its authority under I.R.C. Sections (§§) 6081 (2001) and 6161 (2001) to postpone the deadlines for filing tax returns and paying taxes for taxpayers who live in natural disaster areas. If the President of the United States declares an area a Federal Disaster Area,¹ and the IRS has exercised its authority under I.R.C. §§ 6081 and 6161, then I.R.C. § 6404(h) (2001) requires that the IRS abate any interest that would accrue during the extension period for affected taxpayers. In addition, the Secretary of the Treasury may decide to postpone certain acts under I.R.C. § 7508A (2001), such as the required estimated payment of tax, for taxpayers affected by disasters.

Historically, natural disasters affected a small number of taxpayers in a concentrated geographical area that could be easily identified by postal zip codes. The IRS has written procedures to provide administrative tax relief to smaller numbers of taxpayers when disasters occur, such as floods or hurricanes. However, the September 11, 2001, terrorist attacks were unprecedented because they affected taxpayers all across the nation.

An estimated 22.3 million taxpayers in the New York City and Washington, D.C. areas were identified as affected taxpayers. These taxpayers include those killed or missing in the terrorist attacks, as well as the surviving individual and business taxpayers who have homes or businesses in the Federal Disaster Areas. In addition, an unknown number of other taxpayers, who do not live in the immediate vicinity of the disaster areas, could qualify for tax relief because of the terrorist attacks. These taxpayers include those who

¹ The President may declare an area as a major disaster or emergency area to provide federal assistance under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 USC §§ 5121-5204). Disaster areas and emergency areas receive different levels of federal assistance. The Federal Emergency Management Agency is responsible for federal disaster relief activities.

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commute to jobs, maintain tax records, or provide emergency relief in the disaster areas. Further explanation of the administrative tax relief and the criteria to qualify for tax relief is provided in Appendix V.

Due to time constraints, this review focused on the IRS' efforts to provide tax relief to the surviving individual taxpayers (not business taxpayers) entitled to administrative tax relief. Other Treasury Inspector General for Tax Administration audits focused on the IRS' efforts to prepare for the processing of income tax returns for those individuals killed as a result of terrorist attacks on April 19, 1995, (Oklahoma City) and September 11, 2001, or as a result of the anthrax attacks;² and on business taxpayers needing disaster relief after September 11, 2001.³

We performed audit work in the Tax Administration Coordination (OTAC) and the Modernization and Information Technology and Security Services (MITS) offices from February through April 2002, in accordance with *Government Auditing Standards*. Detailed information on the audit objectives, scope, and methodology is presented in Appendix I. Major contributors to this report are listed in Appendix II.

The Internal Revenue Service Provided Tax Relief to Surviving Individual Taxpayers Affected by the September 11, 2001, Disaster

The September 11, 2001, terrorists attacks on the World Trade Center and the Pentagon, and the airplane that crashed in Pennsylvania, presented tax administration issues that were far more complex than what the IRS has previously had to deal with. After the attacks, IRS management took immediate action to develop and implement a methodology to provide tax relief to those surviving taxpayers whose lives had been disrupted by the terrorist attacks.

On September 12, 2001, the IRS Commissioner assigned the Director, OTAC, with responsibility for coordinating the

² Efforts to Implement the Victims of Terrorism Tax Relief Act of 2001 (Audit Number 200210009).

³ The Internal Revenue Service Worked Quickly to Assist Business Taxpayers Needing Disaster Relief After September 11, 2001 (Audit Number 200230015).

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IRS' efforts to provide relief for taxpayers affected by the disaster.⁴ The Director, OTAC, met with the IRS' Senior Management Team and formed a team of executives from across the IRS to coordinate and resolve all technical, operational, and policy questions associated with tax relief issues, and to provide public guidance. The Wage and Investment Division and the Small Business/Self-Employed Division management provided on-site tax assistance as needed, working with the Federal Emergency Management Agency (FEMA) and the New York City officials.

Also on September 12, 2001, IRS senior management (including IRS Counsel) met with the Department of the Treasury and Financial Management Service officials to determine the tax relief that should be provided to taxpayers affected by the attacks. The meetings resulted in a series of events, beginning on September 12, 2001, that were designed to ease the burden on taxpayers across the country who were affected by the events of September 11, 2001. In addition, on September 14, 2001, the IRS Commissioner met with representatives from major accounting and tax professional organizations and outlined the IRS' planned relief. The tax and accounting professionals provided their opinions on the planned relief and identified several areas that required further action to protect taxpayers who needed relief.

The following federal disaster assistance and administrative tax relief was declared for taxpayers in the Federal Disaster Areas.

- President Bush declared the five boroughs of New York City and Arlington County, Virginia as Federal Disaster Areas, and all counties of New Jersey as an Emergency Area.
- The Department of the Treasury and the IRS announced that filing and payment tax relief would be provided for

⁴ The OTAC is within the IRS Headquarters Office located in Washington, D.C. The Director of Field Assistance, Wage and Investment Division, located in Atlanta, Georgia, traditionally coordinated the IRS' disaster assistance program.

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individual and business taxpayers in the five boroughs of New York City and Arlington County, Virginia.

- The IRS also granted administrative tax relief to other taxpayers who meet certain requirements but do not reside within the five boroughs of New York City and Arlington County, Virginia.

Because existing disaster assistance procedures were not designed to provide tax relief to affected taxpayers dispersed over a large geographical area, the IRS developed a methodology that attempted to ensure tax relief would be provided for all affected taxpayers residing in, working, or operating businesses in the Federal Disaster and Emergency Areas and for surviving affected taxpayers living outside these areas. The disaster assistance program included the following.

- Existing computer programs were updated to freeze the accounts of affected individual taxpayers who reside in specific geographical areas. Most assessments of tax, interest, and penalties and the creation of many collection notices⁵ are generated automatically by IRS computers. The computer freeze suppressed certain interest and penalties, as well as most taxpayer notices, as allowed by I.R.C. §§ 6081, 6161, 6404(h), and 7508A.

The account freeze was input to the accounts of taxpayers living in specific geographical areas to ensure that taxpayers most likely affected by the disaster received appropriate filing and payment relief and to prevent the issuance of some notices. An account freeze indicator (–O freeze) was also input to taxpayers' accounts to alert IRS employees of the taxpayers' disaster status.

⁵ Notices are form letters the IRS sends to taxpayers advising them of proposed changes to tax, such as assessments of penalties, interest, or balances due.

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- Written guidance was issued that advised IRS employees to suspend certain activities⁶ if the –O freeze indicator was present on the taxpayer’s account.
- A taxpayer outreach program was established that provided information on how affected individual taxpayers could obtain tax relief.

IRS management initially implemented the tax relief for all taxpayers nationwide effective September 11, 2001. By doing this, the IRS ensured that affected taxpayers were provided the tax relief starting from the day of the attacks. This also gave the IRS time to determine what type of tax relief would be granted, identify the taxpayers most likely to be affected, and to input systemic controls on those taxpayers’ accounts. Subsequently, the scope of the tax relief was reduced to only those taxpayers most likely to have been directly affected. The tax relief was provided in stages, as follows.

- September 11, 2001, through September 24, 2001

Effective September 11, 2001, the IRS provided all taxpayers nationwide with filing and payment relief through September 24, 2001. Computer programming suppressed assessments of penalties and interest as long as the tax returns and payments that were due during this time period were filed or paid by September 24, 2001. This tax relief allowed both individual and business taxpayers additional time to meet their immediate federal tax obligations that may have been delayed due to disruptions caused by the terrorist attacks.

Effective September 12, 2001, to September 25, 2001, IRS management stopped printing and mailing notices to all taxpayers nationwide. This ensured that notices mailed after September 25, 2001, reflected the correct interest and penalty computations (i.e., interest and

⁶ The activities suspended on affected taxpayer accounts includes, but is not limited to, the filing of liens and levies and starting new audits of affected taxpayers’ tax returns.

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penalty assessments were suspended for all accounts during this initial tax relief period).

- September 25, 2001, through October 30, 2001

Effective September 25, 2001, only the accounts of taxpayers who lived or operated businesses in 27 counties of New York, New Jersey, and Virginia that were declared Federal Disaster and Emergency Areas, and 11 other counties in Connecticut and New York designated by the IRS were frozen. The account freeze indicator (–O freeze) was also input to these accounts. The freeze was set to expire on October 30, 2001. These accounts were frozen because most of the taxpayers qualifying for tax relief would live, work, or have businesses in these areas.

- October 31, 2001, through March 31, 2002

Effective October 31, 2001, the accounts of taxpayers who lived or operated businesses in the immediate vicinity of the World Trade Center in New York City were frozen, and the –O freeze indicator was reset to expire March 31, 2002. These accounts were frozen because these taxpayers were the most likely to have had their homes and/or businesses destroyed in the attacks and would be the most likely to qualify for tax relief.

In addition, the accounts of selected taxpayers (as identified below) who lived or operated businesses in the five boroughs of New York City and Arlington County, Virginia, were frozen, and the –O freeze indicator was reset. The freeze was set to expire February 12, 2002,⁷ for taxpayers who had extensions to file returns between September 11, 2001, and November 30, 2001.

⁷ Taxpayers with extended filing or payment deadlines falling between September 11 and November 30, 2001, were granted an additional 120 days, and this freeze coincided with this postponement. Taxpayers with original filing or payment deadlines falling within this time period were granted an additional 6 months plus 120 days. We did not identify any individual taxpayer accounts within our sample populations that had original filing or payment deadlines that were in this time period.

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In addition, immediately after the attacks on September 11, 2001, the IRS established an outreach program to advise other affected taxpayers, who were not located within the Federal Disaster Areas and not identified for the account freeze, of the tax relief available and how to self-identify (i.e., contact the IRS to report that they have been affected by the terrorist attacks) to obtain it. The IRS accomplished this through notices sent with all letters to taxpayers, disaster publications at customer assistance sites, announcements and information available on the IRS Internet website, and a special toll-free telephone number for affected taxpayers to call to self-identify for tax relief and to obtain additional disaster-related information. Procedures instructed IRS employees to manually suspend computer activity on the accounts of the taxpayers who self-identified.

Affected individual taxpayer accounts were systemically frozen

The IRS effectively ensured that affected individual taxpayer accounts received the tax relief as intended by IRS management and the Department of the Treasury. We reviewed three statistically valid samples of individual taxpayer accounts (a total of 1,356 accounts) to determine the effectiveness of management's actions to suspend activity on affected individual taxpayer accounts. The results of our samples are presented by type of sample: Connecticut and New Jersey Counties; Five Boroughs of New York City and Arlington County, Virginia; and World Trade Center.

Connecticut and New Jersey Counties (Commuting Area) Taxpayers

Taxpayers with postal zip codes in all counties in New Jersey and five counties in Connecticut were provided systemic disaster freezes on their accounts, effective September 25, 2001, through October 30, 2001. IRS management included these counties in the systemic freeze to provide tax relief for taxpayers who commute to work in the attack sites. The programming was designed to prevent collection notice activity on the taxpayers' accounts through October 30, 2001.

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We reviewed 457 accounts of individual taxpayers with postal zip codes in the designated counties of New Jersey and Connecticut. Because of time constraints, we did not determine if the programming prevented collection notice activity or if the –O freeze account indicator was present on the accounts in this sample because we tested for these in the other two samples. However, we determined that the appropriate computer disaster codes were input to all 457 accounts and indications are that the accounts were frozen from September 25, 2001, through October 30, 2001, as intended by IRS management.

Five Boroughs of New York City and Arlington County, Virginia Taxpayers

Taxpayers with postal zip codes for the five boroughs of New York City and for Arlington County, Virginia were also provided a systemic freeze on their accounts from September 25, 2001, through October 30, 2001. These accounts were frozen because most of the individual taxpayers qualifying for tax relief would reside in the disaster areas.

- The systemic account freeze was continued until February 12, 2002, if the taxpayer's account had an extended filing due date falling between September 11, 2001, and November 30, 2001. The additional freeze time was provided to coincide with the tax relief that provided an additional 120 days for taxpayers in these postal zip codes to file their returns.
- The systemic account freeze ended on October 30, 2001, for taxpayers with payment obligations that were due after September 10, 2001. However, failure to pay penalties were disregarded on these obligations for a period of 120 days, from September 11, 2001, until January 9, 2002.

We reviewed 455 individual taxpayer accounts with extended filing or payment due dates, and with postal zip codes located in the five boroughs of New York City and in Arlington County, Virginia. We determined that all 455 taxpayer accounts in our sample were frozen to provide the tax relief as intended by IRS management and the Department of the Treasury.

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However, we determined that all 71 individual taxpayer accounts in our sample with an account freeze ending date of February 12, 2002, did not have the –O freeze indicator on the accounts.⁸ This occurred due to a computer programming error when the account freeze was extended beyond the expiration date of October 30, 2001. IRS management stated that extreme time constraints involved in programming this tax relief did not allow them to follow their normal program testing procedures prior to input to IRS computers.

We estimate that the account freeze indicator was not reflected on the accounts of approximately 79,600 individual taxpayers with postal zip codes in the Federal Disaster Areas, including the five boroughs of New York City and Arlington County, Virginia. This resulted in IRS computer account information being unreliable for these taxpayers' accounts. The presence of the –O freeze indicator is important because it alerts IRS employees of the taxpayer's disaster status when they view a summary of the taxpayer's account for any tax year. Although the freeze indicator was not present on the 71 accounts, we did not identify any prohibited compliance activity. We attribute this to the systemic freeze and to management's guidance to IRS employees to suspend certain activity⁹ on the accounts of taxpayers who live in the Federal Disaster Areas.

⁸ Seventy-six of the 455 accounts in the sample had extensions to file returns that fell between September 11 and November 30, 2001. However, 5 accounts (7 percent) had no IRS IMF account data available or the freeze ending dates were other than February 12, 2002, because the taxpayer's zip code was in the immediate vicinity of the World Trade Center or the taxpayer had moved from the disaster area.

⁹ The activities suspended on affected taxpayer accounts includes, but is not limited to, the filing of liens and levies, and starting new audits of affected taxpayers' tax returns.

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World Trade Center Taxpayers

Taxpayers with postal zip codes within the immediate vicinity of the World Trade Center¹⁰ were provided a systemic disaster freeze on their accounts, effective from September 25, 2001, until March 31, 2002. They were provided the longest period of tax relief because they are the most likely to have homes and/or businesses destroyed in the terrorist attacks and are the most likely to qualify for tax relief. IRS guidance instructed employees to suspend all compliance activity, such as liens, levies, seizures, and audits, until March 31, 2002. From April 1, 2002, until September 30, 2002, compliance activity can be resumed only with managerial approval. After September 30, 2002, the restrictions will be dropped and compliance activity can be taken using normal procedures.

We reviewed 444 accounts of individual taxpayers living in the vicinity of the World Trade Center. We determined that all 444 accounts in our sample were provided the tax relief as intended by IRS management and the Department of the Treasury. In addition, we did not identify any prohibited compliance activity on the accounts of taxpayers in our sample.

Other affected taxpayers were instructed to contact the Internal Revenue Service for disaster assistance

IRS management provided the systemic account freeze on the taxpayer accounts with postal zip codes in the IRS and Presidentially declared disaster areas. However, these were not the only taxpayers who were affected by the terrorist attacks. Other affected taxpayers, who reside outside these areas, had to self-identify to obtain the tax relief. IRS management provided the following information to advise these taxpayers, including English and Spanish-speaking, non-Internet active, and sight and hearing-impaired taxpayers, how to obtain tax relief.

- News releases were issued detailing the administrative tax relief authorized. A September 13, 2001,

¹⁰ The IRS identified 10 postal zip codes around the World Trade Center for this freeze.

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news release instructed taxpayers to write “September 11, 2001, Terrorist Attack” in red ink at the top of the front page of their tax returns. Another news release advised taxpayers that a special toll-free telephone number was available for them to call for assistance. These releases are also posted on the IRS Internet website for taxpayers who are Internet-active. IRS Counsel also included their telephone number in the notices for taxpayers to call and ask questions.

- Four special disaster notices were developed and tailored to the receiving audience. The notices were included in correspondence to taxpayers beginning November 5, 2001. The notices instructed recipients to call the IRS if they were affected by the September 11, 2001, terrorist attacks and were unable to meet their federal tax obligations.
- Several IRS publications, including two new publications, available at customer assistance sites and on the IRS Internet website, instructed taxpayers to contact the IRS if they were affected by the September 11, 2001, terrorist attacks.
 - Publication 3920, Tax Relief for Victims of the Terrorist Attacks (February 2002) - Provides information to taxpayers about legislative tax relief available to victims of terrorist attacks, including the Oklahoma City Bombing, September 11, 2001, terrorist attacks, and anthrax attacks.
 - Publication 3921, Help from the Internal Revenue Service for Those Affected by the Terrorist Attacks on America (September 2001) - Details the tax relief provided by the IRS for the September 11, 2001, terrorist attacks and includes instructions to taxpayers on how to obtain tax relief.
 - Other publications – Publications covering casualty losses, estimated taxes, and amended tax returns also contain references to the tax relief granted by the IRS for the September 11, 2001, terrorist attacks. Tax packages, mailed to taxpayers for filing their

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2001 tax returns, refer taxpayers to Publication 3920 on the tax relief granted to affected taxpayers.

Generally, the notices provided to taxpayers included only limited information, primarily to advise the taxpayers that they may qualify for the tax relief and to call the IRS if they were affected by the terrorist attacks. A special toll-free telephone number was established for taxpayers to call for assistance. If taxpayers identified themselves as affected by the September 11, 2001, terrorist attacks, IRS procedures instruct employees to manually set the freeze on the taxpayers' accounts.

IRS management has never had to deal with a disaster affecting such a large number of taxpayers over a wide geographic area. To ensure that, in the future, the IRS will be prepared to deal with issues and requirements that surfaced as a result of the September 11, 2001, terrorist attacks, the IRS executive management team remains in existence and is overseeing the modification of the disaster assistance procedures.

Recommendation

1. Modernization and Information Technology and Security Services management should develop procedures to ensure that computer programming is reviewed immediately after input to computer systems if, due to time constraints, it cannot be reviewed prior to input, as required.

Management's Response: Modernization and Information Technology and Security Services management has adopted a policy that ensures that computer programming is reviewed immediately after input to computer systems if, due to time constraints, it cannot be reviewed prior to input, as required.

Detailed Objectives, Scope, and Methodology

Our objectives were to determine the effectiveness of actions taken to suspend activity on accounts of individual taxpayers located in the disaster and emergency areas for the September 11, 2001, terrorist attacks. In addition, we determined if the Internal Revenue Service (IRS) took appropriate actions to advise taxpayers entitled to disaster relief, but not located in the disaster areas, of the tax relief available and how to self-identify to obtain it.

To accomplish these objectives, we performed the following work:

- I. Determined the effectiveness of actions taken to suspend activity on accounts of affected individual taxpayers located in the IRS and Presidentially declared disaster areas for the September 11, 2001, terrorist attacks.
 - A. Identified the actions taken by IRS management to suspend activity (e.g., mailing of notices and assessment of penalties and interest) on accounts of taxpayers located in the disaster areas.
 - B. Analyzed 1,356 Individual Master File¹ (IMF) accounts² from postal zip codes matching those designated for the freeze to determine if the IRS effectively suspended activity on the accounts of affected taxpayers located in the disaster areas of the September 11, 2001, terrorist attacks.³
 - 1. Determined if the IRS' computer program input freeze indicators and prevented assessments, notice generation, and compliance actions on accounts located in the immediate vicinity of the World Trade Center.
 - a) Obtained a listing of the IMF accounts with postal zip codes within the immediate vicinity of the World Trade Center.
 - b) Analyzed a statistically valid sample of 444 IMF accounts from the listing for the –O freeze, Transaction Code (TC) 971 and Action Code (AC) 86 or 87, and determined if notices, interest and penalty

¹ The IRS database that maintains transactions or records of individual tax accounts.

² The samples were randomly selected using a 95 percent Confidence Level, a 2 percent Precision Rate, and a 5 percent Error Rate to allow projecting over the universe of individual taxpayers affected by the September 11, 2001, disaster.

³ The Office of Audit could not validate electronic data to ensure that all affected taxpayers were included in the IMF computer files used to identify the three sample populations, because the IRS could not provide estimates of the populations.

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assessments, and collection and examination activity were suspended.

2. Determined if the IRS' computer program input freeze indicators and prevented assessments, notice generation, and compliance actions on accounts located in the five boroughs of New York City and in Arlington County, Virginia, where the taxpayers had filing or payment due dates falling between September 11, 2001, and November 30, 2001.
 - a) Obtained a listing of the IMF accounts with postal zip codes matching those identified by the IRS for the five boroughs of New York City and for Arlington County, Virginia, where the taxpayers had original or extended tax return due dates or payment due dates between September 11, 2001, and November 30, 2001.
 - b) Analyzed a statistically valid sample of 455 IMF accounts from the listing for the –O freeze, TC 971 and AC 86 or 87, and determined if notices, interest and penalty assessments, and collection and examination activity were suspended.
 - c) Identified the cause for any exception cases and the total number of taxpayers with exceptions.
3. Determined if the IRS' computer program input the –O freeze indicator and an October 30, 2001, expiration date for the freeze on taxpayer accounts with postal zip codes matching the IRS listing of Connecticut and New Jersey counties.
 - a) Obtained a listing of IMF accounts with postal zip codes matching those designated by the IRS for Connecticut and New Jersey.
 - b) Analyzed a statistically valid sample of 457 IMF accounts from the listing for –O freeze, TC 971, AC 86 or 87, and a disaster date of October 30, 2001.

- II. Determined if IRS management took appropriate actions to advise taxpayers entitled to disaster tax relief, but not located in the disaster areas, of available tax relief and how to obtain it.
 - A. Identified IRS communications and outreach efforts to advise the public of available tax relief and actions necessary to obtain it.
 - B. Reviewed public information sources (e.g., Internet sites, publications and forms, toll-free telephone services, etc.) and determined if assistance and information regarding tax relief were available to all taxpayers who do not reside in postal zip codes identified for the –O freeze (i.e., English and Spanish-speaking, non-Internet active, and sight and hearing-impaired taxpayers).

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner N:DC
Commissioner, Small Business/Self-Employed Division S
Commissioner, Wage and Investment Division W
Chief, Information Technology Services M:I
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Liaisons:
 Commissioner, Small Business/Self-Employed Division S
 Commissioner, Wage and Investment Division W

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Reliability of Data – Potential

Approximately 79,600 taxpayers' Individual Master File (IMF)¹ accounts with postal zip codes in the Federal Disaster Area, including the five boroughs of New York City and Arlington County, Virginia, although systemically frozen, did not have the systemic freeze indicator (–O Freeze Account Indicator) on the accounts from October 31, 2001, through February 12, 2002 (see page 2).

Methodology Used to Measure the Reported Benefit:

The Office of Audit performed the following.

- Obtained the Internal Revenue Service IMF for all the individual taxpayers with postal zip codes in the five boroughs of New York City and in Arlington County, Virginia, who had original or extended due dates for filing their tax returns between September 11, 2001, and November 30, 2001 (85,566 records).
- Obtained the TRCAT² for all individual taxpayers with postal zip codes in the five boroughs of New York City that had payment obligations beyond September 10, 2001 (377,272 records).
- Obtained the TRCAT for all individual taxpayers with postal zip codes in Arlington County, Virginia that had payment obligations beyond September 10, 2001 (9,805 records).

The Office of Audit analyzed a statistically valid sample of 455 records³ of taxpayers with postal zip codes for the five boroughs of New York City and for Arlington County, Virginia,

¹ The IRS database that maintains transactions or records of individual tax accounts.

² TRCAT records are created monthly by the IRS for taxpayer accounts that have a balance due, as part of the Accounts Receivable Dollar Inventory.

³ The sample was selected using a 95 percent Confidence Level, a 2 percent Precision Rate, and a 5 percent Error Rate.

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from the three computer files listed above. Of the 455 records, we identified a systemic programming error for 71 of 76 (93 percent) of the IMF accounts where the taxpayers had filing due dates falling between September 11, 2001, and November 30, 2001. These 76 records came from the population of 85,566 records listed above.

The accounts all received a systemic account freeze (-O Freeze Account Indicator) effective September 25, 2001, that expired on October 30, 2001. The account freeze was reset on October 31, 2001, to expire on February 12, 2002. Although the taxpayer accounts were properly frozen, the -O account freeze indicator was not input to the taxpayer accounts. The Office of Audit estimates that this resulted in the accounts of approximately 79,600 ($85,566 * 93$ percent) taxpayers not containing reliable or complete information to show the accounts were in disaster status.

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Appendix V

The Administrative Tax Relief Provided by the Department of the Treasury and Internal Revenue Service to Individual Taxpayers

Type of Relief	Categories of Affected Taxpayers ¹							
	Principal Residence or Place of Business in the disaster area ²	Employed in the disaster area ²	Records Located in the disaster area ²	Victims of the crash (plane and ground)	Document Delivery Problem (outside disaster area)	Spouse of affected taxpayer	Relief workers (incl. PA)	Partner, Shareholder, or beneficiary of an affected taxpayer
Filing Extensions and Postponements <ul style="list-style-type: none"> 6 months plus 120 days for returns that were due from 9/1/01 through 11/30/01. Includes any returns, statement, or other documents. Except for: Individual Tax Year 2000 tax returns with current extensions were postponed to 2/12/02. 120 day postponement of deadline for Retirement Plan Contributions, Tax Court Petitions, Claims for Refund, Filing Lawsuits, and any act listed in Rev. Proc. 2001-53 that would otherwise occur 09/11/01 through 11/30/01. In addition, a 60 day postponement was granted for filing any Tax Court petition that would otherwise be due from 12/01/2001 through 12/31/2001. Postponed filing until 11/15/01 for returns due from 9/11/01 through 10/31/01. Postponed filings until 02/15/02 for returns on extensions that expire from 12/01/01 through 01/31/02. 	X	X	X	X		X	X	X
Payment Extensions and Postponements <ul style="list-style-type: none"> 6 months plus 120 days for payments due with those returns eligible for filing extensions, as described above. This does not apply to returns on extensions granted prior to 09/11/01. Estimated Tax Payments due from 9/11/01 through 1/14/02 were due 01/15/02. Installment Agreement payments due from 9/11/01 through 11/30/01 were extended for 120 days from the original due date. Postponed payment until 11/15/01 for payments due from 09/11/01 through 10/31/01. 	X	X	X	X		X	X	X
Suspension of Failure to Pay penalty <ul style="list-style-type: none"> Not assessed on returns originally due 09/11/01 through 11/30/01. Not assessed from 09/11/2001 through 01/09/02, on returns on extensions granted prior to 09/11/01. 	X	X	X	X		X	X	X
Federal Tax Obligations Due Date Extension <ul style="list-style-type: none"> Due dates for all federal tax obligations due from 9/10/2001 through 9/24/2001 were postponed until 9/24/2001. Applied to filing of returns, claims for refund, and federal tax documents, payment of tax including estimated tax payments, and making elections. 					X			

This relief applied to all taxpayers regardless of where they reside or if they were affected by the disaster. This did NOT apply to deposits of federal tax deposits.

1) "Affected taxpayers" is defined in the Treas. Reg. § 301.7508A, and includes the taxpayer categories listed.

2) "Disaster Area" is defined as the 5 New York Counties (Bronx, Kings, New York, Queens, and Richmond), and Arlington, Virginia.

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Appendix VI

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

July 3, 2002

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Judith B. Tomaso *Judith B. Tomaso*
Director, Tax Administration Coordination

SUBJECT:

Draft Audit Report – The Internal Revenue Service Responded
to the Needs of Surviving Individual Taxpayers Following the
September 11, 2001, Terrorist Attacks (Audit # 200210011)

I appreciate the opportunity to review and comment on this report, which addresses some of actions taken by the Service and the Department to provide unprecedented tax relief following the September 11th terrorist attack. I am pleased that the report recognizes both the extent and success of our efforts.

The IRS has had considerable experience with providing tax relief and taxpayer assistance in responding to natural disasters in the past. However, as your report recognized, we had never been challenged to react to a disaster having the potential to impact taxpayers nationwide. As you noted, the Commissioner and the IRS senior management, including IRS Counsel, worked immediately following the disaster with Treasury department officials to determine and provide unprecedented filing and payment relief nationwide for a limited period of time.

Cooperation continued as the IRS determined subsequent relief actions for those directly affected by the terrorist attacks. A cross-divisional IRS executive team was formed to expedite resolution of all technical, operational, and policy questions associated with tax relief issues, and to provide prompt public guidance. The Wage and Investment and Small Business/Self-Employed Divisions provided on-site assistance as needed, working with the Federal Emergency Management Agency (FEMA) and New York City officials. Throughout, our work was marked by a continuing dialogue with external stakeholders concerning the adequacy and impact of our relief policies and a focus on providing relief, whenever possible, without the taxpayer having to ask for it.

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2

Recommendation

Modernization and Information Technology and Security Services management should develop procedures to ensure that computer programming is reviewed immediately after input to computer systems if, due to time constraints, it cannot be reviewed prior to input, as required.

Corrective Action

Modernization and Information Technology and Security Services management has adopted a policy that ensures that computer programming is reviewed immediately after input to computer systems if, due to time constraints, it cannot be reviewed prior to input, as required.

Implementation Date:

April 1, 2002

If you have any questions, please call me at 202-622-7194; members of your staff can call Gary Doniger at 202-622-8869.

Attachment